Chapter 14
Reciprocation of Indian States on Trade Relation

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ABSTRACT

In the past few years, it is being observed that there is a wake-up call for creating one economic India, one market place with free movement of goods and people. Again, for creating one economic India, the needs of creating one economic India, it needs to preserve sovereignty for the Indian states. However, it is very pertinent to ask how much internal integration India has achieved through trade between states within India. Under such brief backdrop, the author has tried, as an initial attempt, to apply social network analysis (SNA) for studying empirically reciprocation/cohesiveness of Indian states using the data on inter-firm and intra-firm trade flows between states for the financial year 2015-2016. On the basis of reciprocity counts for weighted social networks on inter-states trade relation, the standardized reciprocity measures have been adopted for the chapter. The outcomes of the chapter seem to offer important implications for understanding cooperation and integration on inter-states trade interactions and to exhibit the equilibrium and circularity of inter-state trade flows.

INTRODUCTION

The trade concept has been originated since long ago along with human civilization and communication and is believed to have taken place throughout much of recorded human history. In the prehistoric age, trading was the main facility of people and people bartered goods from each other before the innovation of the modern day currency. Trade was thought of as goods exchange economy and hence it is the

transfer of ownership of goods from one person / entity to another. Such transfer was made by getting something in exchange from the buyer. Trade is sometimes loosely called commerce or financial transaction or barter. A market is nothing but a network that allows trade. Modern traders generally negotiate through a medium of exchange, such as money. Trade exists for man, due to specialization and division of labour, in which most people concentrate on a small aspect of production, trading for other products. In a society, trade is required for man due to specialization and division of labour, in which most people concentrate on a small aspect of production, trading for other products. Trade occurs between regions / entities, because different regions have a comparative advantage in the production of some tradable commodity. As such, trade at market prices between locations, benefits both locations.

In India, the idea of federalism and its economic importance are not new. It is argued that federalism and ensuing decentralization of power empower the local governments and consumers to have better information. Hence, they can make better decisions and planning (Hayek, 1945). Competition among States leads to more efficient resource allocation (Tiebout, 1956). Besides the gain from the efficiencies of resource allocation, however, is the additional prospect of creating a common market enabling all constituencies to utilize their respective comparative advantages in a geographical area otherwise separated by jurisdictional boundaries (Bagchi, 2002). In that sense, trade among States remains a vital element in utilizing the gains from decentralization and specialization. In India, in particular, gains from specialization are massive.

Trade and its effects on the Indian economy have been an important issue in the history ofIndian economy (e.g. Chand and Sen, 2002; Krishna and Mitra, 1998; Topalova and Khandelwal, 2011; Topalova, 2007). After the liberalization of Indian economy in 1991, the country has undergone massive structural changes and focused increasingly on principles of privatization and liberalization. Consequently, at present, international trade accounts for almost 38 per cent of India's GDP (World Bank, 2014) and the country ranks among the 12th largest traders in the world with total trade rising at more than 20 per cent per annum (World Bank, 2014).

While there are several studies with a lot of discussions about the success or failure or lack in India's international trade, very little work has been done to study the internal trade in India. India is a conglomeration of States having a variety of climatic, socio-economic, and ethno-cultural diversity. Though there is immense size and large diversity of local economies, the States have much potential for trade. Therefore, attempt for understanding how trade between the States in India, called internal trade, is running will be an important exercise What is known, however, is that internal trade in India is plagued by assortment of restrictions related to diversity in controls, and lack of uniformity in standards and taxing structures, and therefore, considerable room for improvement exists to improve facilitation of trade among various States in India itself (Behera, 2006).

It is now well accepted that barriers to trade are just one component of the factors that determine trade. The traditional gravity model says that "interaction between large economic clusters is stronger than that between smaller ones, and nearby clusters attract each other more than far-off ones" (Van Bergeijk and Brakman, 2010). More recently, literature has moved away from traditional size and distance models to include other non-economic determinants such as socio-cultural and linguistic similarities (Campbell, 2010), institutional and political differences (Möhlmann et al., 2009), differences in productivity and technological development, among others.

For the past few years, it has been observed that there is a wake-up call for creating one economic India, one market place for the free, unimpeded movement of goods and people. As in the report of the Economic Survey2016-2017, a cautious reading of the Constitution and the Constitutional Assembly

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